

REPORT HIGHLIGHTS

Seattle Office of City Auditor – February 8, 2007

A copy of the Office of City Auditor's full report regarding Seattle Public Utilities (SPU) Billing and Accounts Receivable – Drainage Fees can be obtained at the Auditor's website at <http://seattle.gov/audit> or by calling (206) 233-3801. Please direct any questions or comments regarding this report, or suggestions for future audits to Susan Cohen, Seattle City Auditor, at (206) 233-3801 or susan.cohen@seattle.gov.

SEATTLE PUBLIC UTILITIES BILLING AND ACCOUNTS RECEIVABLE – DRAINAGE FEES

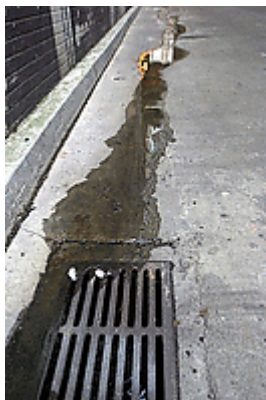


Photo from Seattle Municipal Archives

AUDIT CONCLUSIONS

Overall, we found internal controls were adequate for the billing and accounts receivable policies, procedures, and operations for SPU's Drainage fees. However, delinquent Drainage accounts are not properly tracked, researched, and pursued. Property data in the Drainage Billing System (DBS) database is not consistently accurate. SPU may want to re-evaluate whether Drainage billing and administration functions should continue to be performed by King County or brought in-house.

Drainage Fee Revenues

| | |
|------|--------------|
| 1996 | \$10,308,813 |
| 1997 | \$10,913,446 |
| 1998 | \$11,452,354 |
| 1999 | \$16,607,349 |
| 2000 | \$16,085,024 |
| 2001 | \$22,480,601 |
| 2002 | \$22,313,062 |
| 2003 | \$23,652,535 |
| 2004 | \$28,079,333 |
| 2005 | \$31,360,996 |

AUDIT OBJECTIVES

We evaluated internal controls governing Drainage fee billing functions.

In 2005, Seattle Public Utilities (SPU) received about \$31.6 million in Drainage fee revenues.

SPU performs some of the Drainage fee administration functions in-house but they outsource most of this effort to King County, including billing, payment processing, and management of delinquent accounts. SPU Drainage fees are billed to City residents and businesses on the annual King County property tax statements.

Delinquent Drainage Fees: Delinquent Drainage fee accounts are not tracked, researched, or pursued until accounts are three years past due, at which time King County initiates property foreclosure procedures. Until then, interest accrues at the rate of eight percent per year, but no other actions or customer contact occurs. This is especially problematic for delinquent government accounts because foreclosure is not allowed, so currently there is no recourse to try to recover these revenues. Total delinquent accounts represent about \$1.5 million. In addition, King County does not track actual interest paid on delinquent Drainage fees, but estimates this figure. There appears to be several issues with the interest estimation and remission procedures. We estimate the County may be underpaying the City by about \$18,000 annually for Drainage interest charges collected.

Accuracy of Property Data: DBS property characteristics data, including ownership data, is not consistently accurate. During audit fieldwork, we identified several cases of inaccurate commercial property data, and data inconsistencies between DBS and King County's property systems. We noted properties that appeared to have an incorrect owner listed and/or had been sold to a new owner. Data inaccuracies appear to be creating billing errors and misdirection of bills, and this could negatively impact Drainage revenues.

AUDIT CONCLUSIONS (Continued)

Outsourcing Drainage Functions: SPU may wish to re-evaluate whether to continue outsourcing Drainage fee billing and administration functions or to bring them in-house, for several reasons:

- Lack of Delinquent Account Follow-Up: No action is taken on delinquent accounts until property foreclosure procedures are initiated. Conversely, SPU handles delinquent water/waste water/residential solid waste accounts by shutting off water service, after proper warning. This provides a significant incentive for customers to make timely payments; there is no such incentive with Drainage fees.
- Utility Fee Billed on Property Tax Statement: Drainage fees are the only utility charges the City bills on a tax statement. All others are billed on a separate utilities invoice/statement.
- Drainage Functions – Clarity of “Ownership”: There appears to be a lack of clear “ownership” of some Drainage fee administration functions, and this is probably due to the outsourcing arrangement.

SPU Billing & Accounts Receivable - Drainage Fees Risk Matrix

Green: Low risk – Internal controls appear to be adequate

Yellow: Medium risk – It would be ideal to strengthen internal controls

Red: High risk – Internal controls should be strengthened as soon as possible

| Scope Area and Issues | Risk Level |
|---|---------------|
| Billing | Yellow |
| ▪ Variance Reporting | Red |
| ▪ Frequency of Fee Updates to Customer Accounts | Yellow |
| ▪ Handling of Bills “Returned to Sender” | Yellow |
| Payment Processing & Remittance of Payments | Green |
| Accounts Receivable & Delinquent Account Management | Red |
| ▪ Tracking and Follow-Up on Delinquent Accounts | Red |
| ▪ Remission of Interest Paid on Delinquent Accounts | Red |
| Customer Service, Account Adjustments, & Customer Disputes | Yellow |
| ▪ Employee Adjustments to Drainage Fees and/or Receivables | Yellow |
| Information Technology | Yellow |
| ▪ Property Characteristics Data in DBS | Red |
| ▪ DBS System Access Rights | Yellow |
| Fund Accounting – Drainage Fee Revenues & Receivables | Yellow |
| ▪ Reconciliation of Drainage Fee Receivables | Red |
| ▪ Write-Offs of Receivables | Yellow |
| King County Services Performance & Billing Services | Yellow |
| ▪ Memorandum of Agreement with King County | Yellow |
| ▪ Outsourcing of Drainage Fee Administration Functions | Red |

AUDIT RECOMMENDATIONS

- 1) Tracking and reporting for delinquent Drainage fee accounts should be established. SPU should develop and implement a follow-up process for delinquent accounts.
- 2) Data in DBS needs to be reviewed and cleaned up. Delinquent commercial accounts need to be researched to ensure property data is accurate. SPU should be provided with more accurate and complete variance reporting from King County.
- 3) SPU management should re-evaluate the current outsourced arrangement for Drainage fee administration functions, consider the pros and cons, and determine whether it would be better to bring some or all of these functions in-house.